

**WEBSTER COUNTY WATER DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2019**

# WEBSTER COUNTY WATER DISTRICT

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***Michael L. Overby, CPA, PLLC***  
***Certified Public Accountant***  
*2201 Westerfield Drive, Suite C*  
*Providence, KY 42450*

**INDEPENDENT AUDITOR'S REPORT**

To the Commissioners  
Webster County Water District  
Dixon, Kentucky

**Report on the Financial Statements**

I have audited the accompanying financial statements of Webster County Water District (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Webster County Water District, as of December 31, 2019, and the respective

changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the schedules of the District's proportionate share of the net pension and OPEB liability, and schedules of contributions-pension and OPEB information as listed on pages 23-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated April 27, 2020 on my consideration of the Webster County Water District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Webster County Water District's internal control over financial reporting and compliance.



Providence, Kentucky  
April 27, 2020

**WEBSTER COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

The Management's Discussion and Analysis (MD&A) offers readers of the Webster County Water District's financial statements this narrative overview and analysis of the financial activities of the Webster County Water District for the fiscal year ended December 31, 2019.

Webster County Water District (hereafter described as "the District") was established in 1965 under KRS chapter 74 for the purpose of furnishing water service to Webster County.

The District is a special district formed for the express purpose of providing water service within the confines of Webster County, Kentucky. The Webster County Fiscal Court appoints an independent board of commissioners to govern the District. The District operates as an independent entity in that it is legally separate; holds corporate powers of organization; the Fiscal Court does not impose their will upon the District; and the District does not impose financial benefit or burden upon the Fiscal Court. The primary source of revenue for the District is provided by the resale and transmission of water to local and remote areas of Webster County.

### **Highlights**

- Working on interconnect with North Hopkins Water District to purchase water from WCWD
- Covered sever exposed lines
- Installed VFD's (variable frequency drive) on raw 1400 gpm pump
- Installed VFD's on Vanderburg, Dixon & Mt. Pleasant pumps
- Purchased 2019 Dodge Pickup Truck
- Repainted and installed mixing system on 300,000 gallon tank at Oak Heights
- Started replacement of aged radio read meters
- Installed 5,800' of 3' PVC waterline on Bald Knob Hill Road
- Installed payment window and implemented other safety measures on office access

### **Overview of the Financial Statements**

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include proprietary (business-type) fund statements and notes to the financial statements. The first of these proprietary fund statements is the Statement of Net Position. This statement presents all of the District's assets and liabilities, with the difference reported as net position.

The second proprietary fund statement is the Statement of Revenues, Expenses and Changes in Net Position which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The third proprietary fund statement is the Statement of Cash Flows which reports cash amounts received and expended for operations, financing and investment in capital assets, and investing.

Proprietary financial statements show the business-type activities that are intended to recover all or a significant portion of their costs through its activities.

**Notes to the Financial Statements** - The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide statements. The notes to the financial statements begin immediately following the basic financial statements.

## Financial Analysis of the Webster County Water District as a Whole

Net position may service over time as a useful indicator of the District's financial position. In the case of the Webster County Water District, assets exceeded liabilities by \$11,657,618 as of December 31, 2019.

The District's net position of \$11,657,618 reflect its investment in capital assets (e.g. land, buildings, equipment and infrastructure). The District uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending.

### Net Position for the Period Ending December 31, 2019

	Total
Current Assets	\$ 422,853
Noncurrent assests	12,718,375
Deferred outflows of resources	306,739
Total assets	<u>13,447,967</u>
Current liabilites	56,550
Noncurrent liabilites	1,422,134
Deferred inflows of resources	311,666
Total liabilites	<u>1,790,349</u>
Contributed capital	12,314,182
Unrestricted	(656,564)
Total net postion	<u>\$ 11,657,618</u>
Operating Revenue	
Charges for Services	\$ 1,583,168
Other income	4,368
Total Operating Revenue	<u>1,587,536</u>
Operating Expenses	
Operation mainitenance and Administrative expenses	1,282,540
Deprectiation	556,405
Total Operating Expenses	<u>1,838,945</u>
Operating Income	<u>(251,409)</u>
Non-Operating Revenue (expense)	
Interest and Dividend Income	46,453
Tap Fees	19,000
Total Non-operating Revenue (expense)	<u>65,453</u>
Change in Net Position	<u>\$ (185,956)</u>

## Capital Assets

The Webster County Water District's investment in capital assets as of December 31, 2019, amounts to (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure. The summary of capital assets is as follows:

	Balances January 1	Additions	Retirements	Balances December 31
Business Type Activites				
Land and Land Rights	\$ 122,225	\$ -	\$ -	\$ 122,225
Structures and improvements	7,662,493	5,137	-	7,667,630
Supply mains	368,667	-	-	368,667
Pumping equiptment	259,366	-	-	259,366
Water treatment equiptment	102,507	-	-	102,507
Distrubition reservoirs	2,473,068	206,112	-	2,679,180
Transmission mains	10,157,187	7,835	-	10,165,022
Meters and installation	753,432	58,942	-	812,374
Hydrants	63,401	-	-	63,401
Other plant equipment	69,859	-	-	69,859
Office equiptment	109,870	13,200	-	123,070
Transportation equipment	216,936	23,159	-	240,095
Tools and shop equiptment	18,470	-	-	18,470
Lab equipitment	34,419	-	-	34,419
Power operated equipment	29,879	-	-	29,879
Communications eqioptment	49,842	-	-	49,842
Miscellaneous equiptment	3,214	-	-	3,214
Total capital assets	22,494,835	314,385	-	22,809,220
Less accumulated depreciation	(11,615,256)	(556,405)	-	(12,171,661)
Business Type Activites				
Capital assets, net	\$ 10,879,579	\$ (242,020)	\$ -	\$ 10,637,559

## Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Webster County Water District, Attn: Robert Schindley, Superintendent, at P. O. Box 320, Dixon, Kentucky, call 270-639-9010.

**WEBSTER COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2019**

	<u>2019</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 115,730
Accounts receivable	164,464
Inventories	125,067
Prepaid expenses	<u>17,592</u>
<b>Total current assets</b>	<u>422,853</u>
<b>Noncurrent Assets</b>	
Restricted cash and cash equivalents	2,080,731
Capital assets, net of depreciation	10,637,559
Utility deposits	<u>85</u>
<b>Total noncurrent assets</b>	<u>12,718,375</u>
<b>Deferred outflows of resources</b>	
Deferred outflows related to pensions	211,993
Deferred outflows related to OPEB	<u>94,746</u>
<b>Total deferred outflows of resources</b>	<u>306,739</u>
<b>Total assets</b>	<u>13,447,967</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts Payable	15,126
Accrued expenses	22,321
Customer meter deposits	<u>19,102</u>
<b>Total current liabilities</b>	<u>56,549</u>
<b>Noncurrent liabilities</b>	
Net pension liability	1,147,723
Net OPEB liability	<u>274,411</u>
<b>Total noncurrent liabilities</b>	<u>1,422,134</u>
<b>Deferred inflows of resources</b>	
Deferred inflows related to pensions	165,951
Deferred inflows related to OPEB	<u>145,715</u>
<b>Total deferred inflows of resources</b>	<u>311,666</u>
<b>Total liabilities</b>	<u>1,790,349</u>
<b>Net Position</b>	
Contributed capital	12,314,182
Retained earnings (deficit)	<u>(656,564)</u>
<b>Total net position</b>	<u><u>\$ 11,657,618</u></u>

The accompanying notes are an integral part of these financial statements



**WEBSTER COUNTY WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

**December 31, 2019**

**Operating Revenues:**

Charges for services	\$ 1,583,168
Other income	<u>4,368</u>
<b>Total operating revenues</b>	<u><u>1,587,536</u></u>

**Operating Expenses:**

Salaries	419,864
Depreciation	556,405
Materials, supplies, and repairs	98,813
Utilities	181,613
Employee benefits	330,018
Rental of equipment	312
Transportation	23,829
Contract service	16,400
Insurance	33,132
Taxes	30,875
Chemicals	133,668
Advertising	1,171
Miscellaneous	9,559
PSC assessment	<u>3,286</u>
<b>Total operating expenses</b>	<u><u>1,838,945</u></u>

<b>Operating Income (Loss)</b>	<u><u>(251,409)</u></u>
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**Non-operating Revenue (Expenses):**

Interest and dividend income	46,453
Tap fees	<u>19,000</u>
<b>Total non-operating revenue (expenses)</b>	<u><u>65,453</u></u>

<b>Change in net position</b>	(185,956)
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<b>Total net position, beginning</b>	<u><u>11,843,574</u></u>
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<b>Total net position, ending</b>	<u><u>\$ 11,657,618</u></u>
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The accompanying notes are an integral part of these financial statements

**WEBSTER COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**Cash Flows from Operating Activities**

Receipts from customers	\$ 1,583,168
Payments to suppliers	(787,002)
Payments to employees	(419,864)
Other receipts (payments)	<u>4,368</u>

Net cash provided by operating activities	<u>380,670</u>
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**Cash Flows from Capital and Related Financing Activities**

Purchase of capital assets	(314,385)
Capital contributions	<u>19,000</u>

Net cash (used) in capital and related financing activities	<u>(295,385)</u>
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**Cash Flows from Investing Activities**

Interest and dividend income	<u>46,453</u>
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Net increase in cash and cash equivalents	131,738
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Balances, beginning of year	<u>2,064,723</u>
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Balances, ending of year	<u><u>\$ 2,196,461</u></u>
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**Reflected in the Statement of Fund Net Position as:**

Cash and cash equivalents	\$ 115,730
Restricted cash and cash equivalents	<u>2,080,731</u>

Total	<u><u>\$ 2,196,461</u></u>
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**Reconciliation of operating income to net  
cash provided by (used in) operating activities**

Operating income (loss)	\$ (251,409)
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**Adjustments to reconcile operating income to net**

cash provided by (used in) operating activities

Depreciation	556,405
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(6,919)
(Increase) decrease in inventory	(19,057)
(Increase) decrease in prepaid expenses	485
(Increase) decrease in deferred outflows	47,400
Increase (decrease) in accounts payable	7,461
Increase (decrease) in accrued expenses	(862)
Increase (decrease) in customer meter deposits	(689)
Increase (decrease) in net pension liability	(39,582)
Increase (decrease) in net OPEB liability	(71,701)
Increase (decrease) in deferred inflows	<u>159,138</u>

Net cash provided by operating activities	<u><u>\$ 380,670</u></u>
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The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**NOTE 1 – Reporting Entity and Significant Accounting Policies**

**(A) Description of the reporting entity**

Webster County Water District (District) was formed in 1965 by the Webster County, Kentucky Fiscal Court under the Kentucky Revised Statute Chapter 74 for the purpose of providing potable drinking water to residents and businesses in southern Webster County. The District is overseen by a five-member board of commissioners appointed by the county judge/executive and approved by the Fiscal Court. The District is self-supporting through the charges it makes for water sold. The Fiscal Court makes no financial contribution to the District nor do they have any management function with the District. The District is subject to the Public Service Commission of the Commonwealth of Kentucky as to what rates it may charge for water and other service fees. The District is also subject to safe drinking water regulations issued by the Division of Water

**(B) Basis of accounting**

The District operates and reports as an enterprise utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**(C) Applicable accounting standards**

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The District has elected to follow all pronouncements of the GASB.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital

**(D) Cash and Investments**

For the purpose of the proprietary fund of the Webster County Water District, cash on hand, cash in bank and certificates of deposits are considered to be cash and cash equivalents.

Unrestricted cash is available to be expended for normal operating costs. Restricted cash is limited to payments of bond principal and interest, emergency capital improvements, and construction projects.

State statute requires that all deposits and investments in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The District's deposits, including certificates of deposit, were fully collateralized as required by state statutes at December 31, 2019.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**(E) Accounts receivable**

The District accounts for the billings to customers as accounts receivable. Management considers accounts receivable to be fully collectible, accordingly no allowance for doubtful accounts is required. If accounts receivable become uncollectible, they will be charged-off when that determination is made.

**(F) Inventory**

The District maintains a detailed inventory of supplies needed to maintain the water infrastructure. Inventory is stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

**(G) Prepaid expenses**

Payments made by the District that benefit periods beyond December 31st are classified as prepaid expenses. A current asset is recorded at the time of purchase and an expense is made per the consumption method. The prepayment of expenses is for the numerous insurances required on behalf of the District's employees' and its infrastructure.

**(H) Capital assets**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Transmission main lines	50-75 Years
Meters and settings	20-25 years
Hydrants and flush valves	40-50 years
Buildings	40 years
Vehicles	3-5 years
Equipment	7-20 years
Office furniture, fixtures	5-10 years

**(I) Customer deposits**

Deposits are required by the District for each customer to receive services. The deposits are maintained by the District and returned when services are no longer used or other qualifying event by the District's policy.

**(J) Net investment in capital assets**

Net investment in capital assets is the net amount of the capital assets less the amounts payable for long-term debt financing those capital assets.

**(K) Statement of cash flow**

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and cash equivalents and restricted cash and cash equivalents.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**(L) Use of estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**(M) Capital contributions**

Capital contributions include the amounts paid by state and local governments that arise from contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**(N) Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value.

**(O) Postemployment Benefits Other Than OPEBs (OPEB)**

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the County Retirement System of Kentucky (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**(P) Recently Issued Standards**

The District has implemented the following new accounting pronouncements:

GASB Statement No. 85-*Omnibus 2017*, effective for the District's fiscal year ending December 31, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The adoption of GASB Statement 85 did not have an impact on the district's financial position or results of operations.

**NOTE 2 - Budgetary data**

The District's Board of Commissioners receives and approves an annual budget from management each calendar year fulfilling the requirement to prepare an annual budget as required by all Special Purpose Governmental Entities for the Kentucky Department of Local Government.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**Note 3 Capital Assets**

Capital asset activity for the year ended December 31, 2019, was as follows:

	Balances January 1	Additions	Retirements	Balances December 31
<b>Business-type Activities</b>				
Land and Land Rights	\$ 122,225	\$ -	\$ -	\$ 122,225
Structures and improvements	7,662,493	5,137	-	7,667,630
Supply mains	368,667	-	-	368,667
Pumping equipment	259,366	-	-	259,366
Water treatment equipment	102,507	-	-	102,507
Distribution reservoirs	2,473,068	206,112	-	2,679,180
Transmission mains	10,157,187	7,835	-	10,165,022
Meters and installation	753,432	58,942	-	812,374
Hydrants	63,401	-	-	63,401
Other plant equipment	69,859	-	-	69,859
Office equipment	109,870	13,200	-	123,070
Transportation equipment	216,936	23,159	-	240,095
Tools and shop equipment	18,470	-	-	18,470
Lab equipment	34,419	-	-	34,419
Power operated equipment	29,879	-	-	29,879
Communications equipment	49,842	-	-	49,842
Miscellaneous equipment	3,214	-	-	3,214
<b>Total capital assets</b>	<b>22,494,835</b>	<b>314,385</b>	<b>-</b>	<b>22,809,220</b>
<b>Less accumulated depreciation</b>	<b>(11,615,256)</b>	<b>(556,405)</b>	<b>-</b>	<b>(12,171,661)</b>
<b>Business-type Activities</b>				
<b>Capital assets, net</b>	<b>\$ 10,879,579</b>	<b>\$ (242,020)</b>	<b>\$ -</b>	<b>\$ 10,637,559</b>

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**Note 4 Deferred Inflows and outflows of resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents the consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources, expense/expenditure) until then. The District has one item that qualifies for reporting in the category. These are the deferred pension contributions, and pension related deferred components reported in the statements of net position.

A deferred pension contribution results from pension contributions subsequent to the measurement date of the pension plan. This amount is deferred and recognized as a component of the change in pension plan liability in the next measurement period. Pension related deferred components include difference between expected and actual experience; the difference between projected and actuarial earnings on pension plan investments results from actual investment earnings above or below actuarial projected earnings; changes in assumption; and changed in proportion and differences between employer contribution and proportionate share of contributions. This pension related items are deferred and amortized over 5 years as a component of the pension expense.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to a future period(s) which will not be recognized as an inflow of resources (revenue) until that time. The District has no items related to the District's pension plans that qualifies for reporting in the category. A difference between projected and actuarial projected earnings on pension plan investments results from actual investment earnings above or below actuarial projected earnings. This item, difference between projected and actuarial earnings on pension plan investments, is deferred and recognized in future periods as a component of the pension expense.

**Note 5 Employee Retirement System**

The District provides retirement benefits to its employees through a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirements System (CERS). Information regarding this plan as follows:

**County Employees' Retirement System**

Plan Description - The District is a participant in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky retirement system issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, non-hazardous and hazardous employees are grouped into three tiers, based on hire date:

Non-hazardous members:

Tier I	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years olds
		Minimum 25 years of service and any age

**Note 5 Employee Retirement System (cont.)**

Tier2	Participation date	Prior to September 1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not Available

**Hazardous members:**

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	20 years of service of any age
	Reduced retirement	Minimum 5 years of service and 55 years old Minimum 15 years of service and 50 years old
Tier2	Participation date	Prior to September, 1 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Minimum 15 years of service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 60 years old 25 years of service and any age
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefits after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement and death prior to retirement. Death benefits are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty related death. The decedent's beneficiary will receive the higher of the normal death benefit and

\$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay to 40% for all dependent children Five years' service is required for non--service related disability benefits.

Plan funding - State statute requires active members to contribute % of creditable compensation based on the tier:

**Non-hazardous****Required Contribution**

Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance



**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

Employers contribute at the rate determined by the CERS Board to be necessary for the actuarial soundness of the system, as required by KRS 61.565 and 61.752. The District's required contribution rate for non-hazardous employees was 21.48% for the period January 1, 2019 to June 30, 2019 and 24.06% for the period July 1, 2019 to December 31, 2019.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS*

At December 31, 2019, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 the total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2019 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2019. At June 30, 2019, the District's proportion was 0.016319%

District's proportionate share of CERS net pension liability      \$1,147,723

For the year ended December 31, 2019, the District recognized pension expense of \$159,057. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 29,305	\$ 4,849
Changes of assumptions	116,163	-
Net difference between projected and actual earnings on pension plan investments	22,032	40,534
Changes in proportion and differences between District contributions and proportionate share of contributions	6,840	120,568
District contributions subsequent to the measurement date	<u>37,653</u>	<u>-</u>
	<u>\$ 211,993</u>	<u>\$ 165,951</u>

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

The \$37,653 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	Year Ended December 31, 2018
2020	\$ 34,947
2021	(19,398)
2022	(8,475)
2023	1,315
	<u>\$ 8,389</u>

Actuarial Methods and Assumptions-The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Experience Study	July 1, 2008- June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll,
Remaining Amortization Period	26 years, closed
Asset Valuation Method	5-year smoothed market 2.30%
Inflation	2.30%
Payroll Growth	2.00%
Salary Increase	11.55 to 3.30%, including 3.05% inflation
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019.

**WEBSTER COUNTY WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2019**

- The assumed investment rate of return decreased to 6.25%. The assumed rate of inflation decreased to 2.30%.
- Payroll growth assumption decreased to 2.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	53.0%	5.40%
Combined Fixed Income	12.0%	1.50%
Real Return (Diversified Inflation Strategies)	8.0%	3.50%
Real Estate		
Absolute Return (Diversified)	5.0%	4.50%
Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

Sensitivity of the District's proportionate share of net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 1,435,475	\$ 1,147,723	\$ 907,833

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publicly available at <https://kyret.ky.gov>.

**NOTE 7 CERS – General Information about the OPEB Plans**

**CERS- GENERAL INFORMATION ABOUT THE OPEB PLANS**

Other Pension Benefit Programs

Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

The actuarial valuation was performed on June 30, 2019 to establish the Districts' net pension liability. The District will use this actuarial valuation for the Districts' reporting period ending December 31, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2019, the District reported a liability of \$274,411 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .0.16315 percent.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

Districts's proportionate share of net OPEB liability	\$ 274,411
Commonwealth's proportionate share of the net OPEB liability associated with the District	-
	<u>\$ 274,411</u>

For the year ended December 31, 2018, the District recognized OPEB expense of \$21,398. At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 82,796
Changes of assumptions	81,201	543
Net difference between projected and actual earnings on pension plan investments	1,808	13,996
Changes in proportion and differences between District contributions and proportionate share of contributions	2,346	48,380
District contributions subsequent to the measurement date	9,391	-
	<u>\$ 94,746</u>	<u>\$ 145,715</u>

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

The \$9,391 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	Year Ended June 30, 2019
2020	\$ (10,741)
2021	(10,741)
2022	(6,866)
2023	(14,270)
2024	(14,343)
Thereafter	(3,399)
	<u>\$ (60,360)</u>

**Implicit Employer Subsidy-** The fully insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

*Changes of Benefit Terms-None*

**Changes of Assumptions-**the Board of Trustees adopted dated actuarial assumptions. Specifically, the Total OPEB Liability as of June 30, 2019 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

**Actuarial Methods and Assumptions-**The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	28 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	2.30%
Salary Increase	4.00%, average
Investment Return	6.25%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (setback 1-year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over period of 2 years.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

Discount rate: The discount rate used to measure the total OPEB liability was 5.68%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56 as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2019. Future contributions from plan members and employers will be made with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and actuarial assumptions adopted by the Board. The following table shows the District's share of the collective net liability:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
CERS	4.68%	5.68%	6.68%
District's proportionate share of OPEB pension liability	\$ 367,598	\$ 274,411	\$ 197,631

Sensitivity of the District's proportionate share of net OPEB liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.84%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
District's proportionate share of OPEB pension liability	\$ 257,684	\$ 346,112	\$ 450,343

**NOTE 8 - Risk management**

The District is exposed to various risks of loss related to illegal acts, torts, theft, damage, destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance coverage.

**WEBSTER COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

**Note 9 Income Tax Statutes**

The Water District is exempt from federal and state income taxes and, accordingly, no provision for such taxes have been made.

**Note 10 Contingencies**

There are several litigation proceedings in which the District is involved. In the opinion of counsel, any liability which the District may have under these proceedings is covered by insurance. The results of litigation proceedings cannot be predicted with certainty, however, in the opinion of the District's general counsel, the District does not have a potential liability in connection with these other proceedings which would have an adverse material effect on the financial position of the District.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**WEBSTER COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TO COUNTY EMPLOYEE'S RETIREMENT SYSTEM  
LAST FISCAL YEAR**

<u>Year Ended December 31</u>	<u>District's proportion of the net pension liability</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net pension liability (asset) as a percentage of its cover employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<u>CERS Nonhazardous</u>					
2015	0.00807%	\$ 776,962	\$ 440,767	176.27499%	59.9684%
2016	0.01912%	\$ 941,317	\$ 456,722	206.10283%	55.5028%
2017	0.01919%	\$ 1,123,484	\$ 456,105	246.32135%	53.3249%
2018	0.01949%	\$ 1,187,305	\$ 469,822	252.71379%	53.5420%

- The amounts presented were determined as of the measurement date June 30 of the current year.
- Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**WEBSTER COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
TO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR**

<u>Year Ended December 31</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2015	\$ 76,496	\$ 76,496	\$ -	\$ 440,767	17.3552%
2016	\$ 81,602	\$ 81,602	\$ -	\$ 456,722	17.8669%
2017	\$ 65,192	\$ 65,588	\$ (396)	\$ 456,105	14.2932%
2018	\$ 69,964	\$ 69,964	\$ -	\$ 469,822	14.8915%

\* The amounts presented were determined as of the measurement date June 30 of the current year.

\*Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**Notes to Required Supplementary Information  
For the Year Ended December 31, 2019**

***Change of Benefit Terms:***

A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

***Changes of assumptions:***

The assumed investment rate of return was 6.25%

The assumed rate of inflation was 2.30%

The assumed rate of wage inflation was 0.75%

Payroll growth assumption was 4.00%

The assumptions were updated as of result of an experience study for the five year period ending June 30, 2013.

The amortization period of the unfunded accrued liability was reset to a closed 30 year period for the year ended June 30, 2013.

The mortality tables used was updated to RP-2000 Combined Mortality Table projected with Scale BB to 2013.

**WEBSTER COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
LAST FISCAL YEAR**

<u>Year Ended December 31</u>	<u>District's proportion of the net OPEB liability</u>	<u>District's proportionate share of the net OPEB liability (asset)</u>	<u>District's covered employee payroll</u>	<u>District's share of the net OPEB liability (asset) as a percentage of its cover employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability</u>
<u>CERS Nonhazardous</u>					
2018	0.019494%	\$ 346,112	\$ 469,822	73.66875%	57.6218%
2019	0.016315%	\$ 274,411	\$ 401,864	68.28454%	60.4382%

- The amounts presented were determined as of the measurement date June 30 of the current year.
- Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

**WEBSTER COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS-OPEB  
TO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR**

<u>Year Ended December 31</u>	<u>Contractually required contribution</u>	<u>Contributions relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
<u>CERS Nonhazardous</u>					
2018	\$ 7,191	\$ 7,191	\$ -	\$ 469,822	1.5306%
2019	\$ 9,391	\$ 9,391	\$ -	\$ 401,864	2.3368%

\* The amounts presented were determined as of the measurement date June 30 of the current year.

\*Schedule is intended to show information for 10 years. Additional years of supplemental information will be provided as this information becomes available.

## **OTHER SUPPLEMENTARY INFORMATION**

**WEBSTER COUNTY WATER DISTRICT  
ADMINISTRATIVE PERSONNEL AND COMMISSIONERS  
DECEMBER 31, 2019**

**ADMINISTRATIVE PERSONNEL**

Robert Schindley, Superintendent  
Roger D. Brooks, Plant Operator  
Myra Bell Scott, Accounting Assistant

**COMMISSIONERS**

Charles Buchanan, Chairman  
Tommy Robertson, Vice Chairman  
James Goff , Secretary  
Larry Villines, Treasurer  
Ryan Hammack





# **Michael L. Overby, CPA, PLLC**

**Certified Public Accountant**

2201 Westerfield Drive, Suite C

Providence, KY 42450

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To The Commissioners  
Webster County Water District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Webster County Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Webster County Water District's basic financial statements, and have issued my report thereon dated April 27, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Webster County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Webster County Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Webster County Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Webster County Water District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Michael A. Carley CPA, PLLC". The signature is written in a cursive, flowing style.

Providence, Kentucky  
April 27, 2020